

Real Estate Investment Trusts

Building A Retirement Savings Portfolio

Commercial real estate investment is a core component used to strengthen a retirement savings investment portfolio. It has provided a competitive return over time and has had low correlation with other asset classes, bringing with it significant diversification benefits. As a result, portfolio managers, Wall Street investment experts and academics recommend a distinct allocation to real estate in model investment portfolios, whether through direct property investments or real estate stocks, such as real estate investment trusts (REITs), or both.

Here's what the experts are saying:

"Real estate is a risk reducer ... The lower the return requirement [of the investor] and the greater the concern about risk, the greater the preferred allocation to real estate."

Susan Hudson-Wilson,
Frank J. Fabozzi, and
Jacques N. Gordon,

"Why Real Estate?" *The Journal of Portfolio Management*, Special Issue 2003

"... an investor with a typical 60% stock and 40% bond portfolio can increase return potential and significantly lower risk exposure by substituting REITs and directly owned real estate for a portion of stock and bond investments."

Martha S. Peyton, Thomas Park and
Fabiana Badillo, "REITs and Directly
Owned Real Estate," *TIAA-CREF
Asset Management*, Summer 2005

"We [added] REITs to our 401(k) two years ago. Long-term, REITs have diversified well against U.S. stocks, non-U.S. stocks, and bonds. We are committed to REITs as a core asset class for defined contribution plans ... Their return, volatility, diversification, dividend yield, and taxation characteristics make the case."

R.L. Vivian, Managing Director, IBM,
Letter to Rep. Jon Porter, April 14, 2005

Four of the largest nine private sector 401(k) plans offer a distinct REIT option for plan participants: IBM (the largest), General Motors, Verizon and Ford Motor Company.

Standard & Poor's Money Market
Directories, 2006

"Real estate returns tend not to be highly correlated with stock and bond performance. This low correlation to other investments makes a good argument for allocating up to 10% of your portfolio, says [Lipper analyst Don] Cassidy."

Elizabeth Harris
SmartMoney.com

"A Solid Foundation", Jan. 16 2004

"... [C]ommercial, industrial, and multifamily residential properties are assets of considerable value that have publicly traded securities ... I believe that REITs should be part of a well-balanced equity portfolio."

Jeremy J. Siegel, Professor of
Finance, Wharton School,
University of Pennsylvania,
"The Future For Investors," page 246
(*Crown Business*, 2005)

"Real estate stocks do not move in lockstep with the rest of the market, and that makes them good portfolio diversifiers."

Meg Ryan, Senior Analyst,
Morningstar, Inc., "Real Estate Trusts
Keep Winning: Analysts Still
Counsel Using Them for Portfolio
Diversity," *Washington Post*,
Jan. 15, 2006

"... [F]or individual investors, publicly traded real estate securities generally provide reasonably low-cost exposure to relatively high-quality pools of real estate assets."

David Swensen, "Unconventional
Success: A Fundamental Approach
to Personal Investment", page 70
(Free Press, 2005)

"Investors who rely on broad-cap equity benchmarks for real estate exposure are not achieving meaningful allocations to the asset class."

Barclays Global Investors
Investment Insights
(September 2005)

And here's what the experts are doing:

According to the 2004 survey by *Pensions & Investments*, fiduciaries at the largest 100 public defined pension plans, including the California Public Employees Retirement System and the New York State Teachers Retirement System, have allocated 6.19% of their total portfolios to commercial real estate investment.

David Swensen, Yale University's Chief Investment Officer, who is responsible for more than \$14 billion in endowment assets and other investment funds, and has accumulated one of the best investment performances among endowments in the last two decades, says the "starting point" for a "well-diversified, equity-oriented portfolio [that] provides a framework for investment success" includes a target of 20% in real estate assets of the total portfolio weight.

— David Swensen, "Unconventional Success:

A Fundamental Approach to Personal Investment," page 34 (Free Press, 2005)

"Investment in equity real estate by *Pensions & Investments'* top 200 pension plans increased 8% ... in the 12 months ended Sept. 30 [2005]. ... 'I think one of the reasons the REIT market and private equity real estate market ... are doing well and will continue to do so in 2006 is that they generate acceptable return for the risk,' Mr. [Stephen J.] Furnary [chief investment officer of ING Clarion Partners] said."

— Arleen Jacobius, *Pensions & Investments Online*,

"Assets up 8% as pension funds move into market," Jan. 23, 2006

A well-diversified retirement savings portfolio should include sufficient exposure to real estate and other core assets to reap the benefits of diversification without overreliance on any one investment or class of assets.

"I believe in broad diversification, not only in a stock portfolio, but I also think that investors need to diversify among asset categories. I suggest that you not only buy stocks, but you want bonds, you want real estate and you want cash ... I'd recommend only 25% regular equities, 15% in an index of REITs, 50% in a bond index and 10% cash ... What you want is broad diversification."

— Burton G. Malkiel, Professor of Economics, Princeton University

Interview with *Registered Rep-The Source for Investment Professionals*; May 1, 2003



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